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SUBJECT: JADE ACT: SMUGGLING OF BURMESE GEMS REMAINS HIGH AT MAE SAI

REF: A. CHIANG MAI 70 (MAE SOT GEM MARKET)
 1B. 08 RANGOON 62 (RANGOON AUCTION)
 1C. RANGOON 333 (BURMESE GEM PRICES)
 1D. CHIANG MAI 67 (BACKDOOR TRADING ROUTES)
 1E. 08 CHIANG MAI 97 (BURMESE REMITTANCES)
 1F. 08 CHIANG MAI 114 (AFRICAN RUBIES DOMINATE MAE SOT)

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Sensitive but unclassified; please handle accordingly.

Summary and Comment

1. (SBU) In contrast to other gem markets in Thailand such as Mae Sot and Chantaburi, where African gems make up the bulk of the merchandise, smuggled Burmese gems (mainly rubies and jade) continue to dominate the local Mae Sai market. While Mae Sai gem traders and jewelry producers complain that the U.S. JADE Act is harming the local Thai polishing and finishing industries, they blame the overall decline of Thai gem trade on the global economic slowdown, higher gem prices forced by the auctions in Rangoon, and domestic political instability in Thailand. In Mae Sai, the smuggling of Burmese gems reveals an informal banking sector and possible links to the narcotics trade, which further highlight the lawlessness of the neighboring Wa-controlled region of Burma.

2. (SBU) Comment: As the Burmese regime continues to force gems to flow through government-sponsored Rangoon auctions and as African gems grow more competitive globally, it is noteworthy that the Mae Sai market - though shrinking overall - remains a significant entry-point for smuggled Burmese gems. In contrast to Mae Sot (ref a), the smuggling services sector appears to be burgeoning and relatively open in Mae Sai, a possible consequence of the fact that the neighboring Wa region of Burma is politically and geographically isolated from Rangoon. Despite this, overall trade in Burmese gems appears to be down, even through Mae Sai's smuggling routes; however, there appears to be few links between that decline and the U.S. JADE Act. End Summary and Comment.

Causes of a Declining Mae Sai Market

13. (SBU) Amid the global economic downturn and GOB efforts to control Burmese gem supply, the Mae Sai gem market (like other gem markets in Thailand) is in decline, local traders and jewelry businessmen told econ staff during a June 19 visit. (Note: Mae Sai is located at the northern most point of Thailand and is adjacent to the Wa-controlled area of Burma. The other major entry point for smuggled Burmese gems into northern Thailand is Mae Sot, which is located on the western Thai-Burma border.) Gem polishers and jewelry makers said that the main cause of the decline over the past two years has been the global economic slowdown, which has driven down demand for luxury goods. According to some gem and jewelry retailers in Mae Sai, domestic political instability in Thailand is also to blame. Political turmoil, which has reduced tourism, means fewer consumers of jewelry products within Thailand, they assert.

14. (SBU) Aside from the economic crisis, Mae Sai businesses also blame efforts by the GOB to force the flow of Burmese gems through the Rangoon auctions for the market's decline (refs b and c). While this process is not new in Burma, Mae Sai based merchants said they believe the regime has been tightening its control over gems in recent years. According to one Thai-owned gem retailer in Mae Sai, as the Burmese regime cracks down on gem smuggling, it forces more traders to buy at the auctions where base prices are set artificially high. This pushes prices of smuggled gems higher, which then raises costs for Thai polishers and jewelry producers who purchase the gems. Higher prices have consequently pushed down the volume smuggled into Thailand. Moreover, Mae Sai traders complained that they cannot

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compete with the purchasing power of other traders at the auctions, particularly the Chinese and Taiwanese who primarily purchase Burmese jade. One Thai gem dealer in Mae Sai said that the Chinese in particular are willing to pay very high prices at the auction, which he attributed to China's interest in supporting Burma politically. Thus, official Burmese imports of gems into Thailand have declined as well.

Three Smuggling Routes Through Mae Sai

15. (SBU) While the Mae Sai gem market is in decline, smuggling of Burmese gems through this border town remains the primary mode of import. Traders of Burmese gems in Mae Sai said smuggled gems enter through one of three methods: directly from a Burmese gem mine, via the auction in Rangoon and, subsequently, through smuggling networks, or by Thai consumers who cross into Burma. In the first case, the Mogok mine in Burma is the primary source for gems bound for Mae Sot, while the Mineshu mine is the main source for gems going to Mae Sai. In these cases, miners smuggle the gems out of the mine and sell them to Burmese traders who carry them to Thailand via Mae Sai. These Burmese smugglers hide the gems on their body under their clothes and cross into Mae Sai by foot, at great risk of detection by Burmese military officials. One Burmese smuggler told econ staff that he makes himself appear impoverished so that Burmese officials will not suspect him; he noted that the work he was doing was highly dangerous on the Burmese side.

¶6. (SBU) The danger of smuggling directly from the mines has grown in recent years due to GOB efforts to control the gem trade, according to Burmese smugglers and Thai traders at Mae Sai. Consequently, a second smuggling route is developing through which gems flow from the mines to the Rangoon auction via official channels, then are smuggled out by those who bid on the gems at the auction. A Thai gem trader described the process as follows: Burmese cronies or government officials will purchase rough gems in bulk at the annual Rangoon auction for a certain price (presumably having competed with foreign bidders). Those domestic buyers then divide up their bulk purchase into smaller rations, which are then sold off (at higher marginal prices) to smugglers who will carry them into Thailand for trading. Thus, the consequence of the GOB crackdown on Burmese gem supply is not so much a decline in the level of smuggling but rather that the revenue from smuggling goes to individual Burmese regime officials as well as to independent Burmese traders. In Mae Sot, on the other hand, smuggling revenue ends up in the pockets of smaller traders with no connections to the regime (ref a).

¶7. (SBU) In the case of high-end rubies, sapphires, and jade, Thai traders do not trust these smuggling methods. (Jade is not often smuggled in raw form due to its weight and bulkiness; it is sold at the auctions in 100 kilo pieces.) According to Thai gem traders in Mae Sai, if a Thai consumer (such as a Bangkok or Chantaburi-based jewelry retailer) identifies a certain high-value gem available in the Burmese market through hear-say or photos, that consumer will travel directly to Tachilek, Burma (adjacent to Mae Sai) to purchase the gem and carry it back himself, without declaring the gem to Thai or Burmese customs. This is particularly common in the Wa-controlled area of Burma which borders Mae Sai and reportedly hosts lawless trade of gems and other goods (see para 11 and ref d).

¶8. (SBU) Both methods contribute to the significant portion of smuggled gems that enter Thailand via Mae Sai. According to gem retailers in Mae Sai, they are not concerned about the fact that their supplies enter Thailand illegally. One high-end, Thai-owned retailer told us that when suppliers (i.e., smugglers) come to their shop to show their products, the company does not ask whether the goods entered Thailand illegally or not. Company contacts said that the concern of retailers, polishers, and jewelry makers in Mae Sai is not how the gems arrived in Thailand but the quality and resale value of the gem itself. They told us that because most of their goods are not for export (but for purchase by foreign tourists or

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wealthy Thais), they are not concerned about acquiring certificates of origin, for example. In contrast, a gem dealer in Chiang Mai told us (ref a) that an increasing number of American tourists have asked for certificates of origin over the past two years.

In Mae Sai, Informal Financial Services for Gem Smuggling

¶9. (SBU) Gem smuggling in Mae Sai has led to the development of informal Thai-owned financial services for Burmese gem smugglers. One Thai businessman who offers such services explained that, officially, his business provides retail space to Burmese and Thai traders to meet and negotiate prices. Beyond that, however, the business serves as an informal bank

for the Burmese gem smuggler. When a smuggler enters Thailand, for example, with about \$30,000 worth of rubies strapped to his body (as was the case with the smuggler we spoke with there), he sells the gems at the shop and returns to Burma empty handed.

¶10. (SBU) Instead of carrying the money he earned back to Burma, he passes the cash to the Thai businessman who owns the trading market and who holds the money for him. Simultaneously, this Thai businessman also functions as an exporter of goods that are illegal to export to Burma (such as soft drinks and instant noodles). In Burma, traders who purchase these illegal imports from him then pay for the goods to the Burmese gem smuggler whose money is being held back in Mae Sai (and his balance there is deducted accordingly, along with a commission to the Thai business owner). This cross-border financial services system closely resembles that used by Burmese migrant workers to remit wages back to their relatives in Burma (ref e).

High Value Gem Smuggling and the Drug Trade

¶11. (SBU) Another sector that has potential links to gem smuggling is narcotics, according to one American jewelry retailer in Mae Sai. This retailer told econ staff that he is reluctant to purchase Burmese gems (he said most of his supply is from Africa, Australia, and North America) because he believes purchasing such gems provides financing to the region's drug trade. This retailer, who has been living in Mae Sai for over 40 years, said that middle-grade gems that are smuggled into Thailand via Mae Sai and which make up the bulk of the trade volume probably have no affiliation with drug traders. However, revenue from high-value smuggled gems, which can be purchased from the Wa by Thais traveling to Burma, financially supports the narcotics trade, he asserted. (Comment: We note that the Wa's 20th anniversary celebration book, released earlier this year, contains pictures of the Wa mining and polishing gems. We have no hard evidence that links the Wa directly to gem smuggling, though the Wa and other armed groups in Shan State are key customers of consumer goods exported from Thailand to Burma via Mai Sai.)

¶12. (U) This cable was coordinated with Embassies Bangkok and Rangoon.
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